



AUDIT AND ADVISORY SERVICES
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July 14, 2006

CHANCELLOR ROBERT BIRGENEAU
Chancellor's Immediate Office

Re: Audit No. 502, Senior Management Group: Travel & Entertainment

The attached final report presents the results of Audit No. 502, Senior Management Group: Travel & Entertainment. This follows review of our draft audit report by cognizant individuals on campus.

Since management's comments have been incorporated into the report, no further response is necessary at this time. However, we may follow up in the future to determine what actions regarding the observations have been taken. We would appreciate it if your staff would please destroy all previous drafts of this report.

The cooperation and assistance provided during the audit are greatly appreciated. Please convey our thanks to those involved. If you have any questions, please call me at 2-8293 or Principal Auditor Sharon Kurek at 2-2111.

Stephanie Siri
Director

Enclosure

cc: Vice Chancellor Brostrom
Associate Chancellor Cummins
Acting Associate Vice Chancellor and Controller Ellis
Executive Director Fields
Manager Lawrence
University Auditor Reed



UNIVERSITY OF CALIFORNIA, BERKELEY
AUDIT AND ADVISORY SERVICES

AUDIT NO. 502

SENIOR MANAGEMENT GROUP: TRAVEL & ENTERTAINMENT

JULY 14, 2006

Sharon M Kurek

Sharon Kurek
Auditor-In-Charge

Stephanie Siri

Stephanie Siri
Director

UNIVERSITY OF CALIFORNIA, BERKELEY
AUDIT & ADVISORY SERVICES
AUDIT NO. 502
SENIOR MANAGEMENT GROUP: TRAVEL & ENTERTAINMENT

I. BACKGROUND

Audit and Advisory Services (A&AS) performed a review of travel and entertainment for seven Vice Chancellors during November 2005 through January 2006 as part of the fiscal year 2005-06 audit plan for the University of California, Berkeley campus. Audit reports were issued to each Vice Chancellor at the conclusion of the audit. The results of these individual reviews have been summarized herein.

In conjunction with a series of efforts launched in late 2005 to address executive compensation concerns, A&AS expanded the audit of travel and entertainment expenditures to include the remaining 28 Senior Management Group (SMG) members at the direction of the University Auditor's Office. The Chancellor was not included in the expanded audit as his travel and entertainment reimbursements were reviewed by PricewaterhouseCoopers. Also, Haas School of Business Dean Thomas Campbell was excluded from the audit population as he was on leave from his position during FY 2004-05 (the period covered by this audit). The results of the expanded audit, along with observations from the Vice Chancellor audits, are reported herein.

II. AUDIT OBJECTIVE AND SCOPE

The objective of the travel and entertainment audit was to review on a limited basis the travel and entertainment expenditures for senior executives who are in the SMG program to ensure expenditures were in compliance with University policy and were appropriate. Also, procedures were performed for the purpose of determining if any such reimbursements constituted a taxable benefit to the recipient. The audit covered activities and transactions in fiscal year 2004-05 with selections from fiscal year 2005-06 as deemed necessary.

The following table lists the seven Vice Chancellors subject to travel and entertainment transaction testing as part of the A&AS fiscal year 2005-06 audit plan:

Last Name, First	Position Title
Burnside, Beth	Vice Chancellor, Research
Denton, Edward	Vice Chancellor, Facility Services
Gray, Paul	Executive Vice Chancellor and Provost
Lustig, Steve	Acting Vice Chancellor, Business and Administrative Services
McQuade, Donald	Vice Chancellor, University Relations
Padilla, Genaro	Vice Chancellor, Student Affairs
Webster, William	Acting Vice Chancellor, Budget and Finance

The additional 28 SMG members subject to travel and entertainment transaction testing as part of the expanded audit are as follows:

Last Name, First	Position Title
Breslauer, George W.	Dean, Division of Social Sciences and Executive Dean, College of Letters and Science
Cummins, John F.	Associate Chancellor
Davis, Barbara G.	Assistant Vice Provost, Undergraduate Education
deVries, Jan	Vice Provost, Academic Affairs and Faculty Welfare
Edley, Christopher F., Jr.	Dean, Boalt Hall School of Law
Fraker, Harrison S.	Dean, College of Environmental Design
Harrison, Victoria L.	Executive Director/Chief of Police, Public Safety and Transportation
Holub, Robert C.	Dean, Undergraduate Division, College of Letters and Science
Koshland, Catherine P.	Vice Provost, Academic Planning and Facilities
Leonard, Thomas C.	University Librarian
Levi, Dennis M.	Dean, School of Optometry
Lie, John	Dean, International and Areas Studies
Ludden, Paul W.	Dean, College of Natural Resources
Lyons, Richard	Acting Dean, Haas School of Business
Maslach, Christina	Vice Provost, Undergraduate Education
Mason, Mary Ann	Dean, Graduate Division
McCredie, John W.	Associate Vice Chancellor, Information Systems and Technology
Midgley, James	Dean, School of Social Welfare
Nacht, Michael	Dean, Goldman School of Public Policy
Newton, Arthur R.	Dean, College of Engineering
Owen, W. Geoffrey	Dean, Division of Biological Sciences, College of Letters and Science
Pearson, P. David	Dean, Graduate School of Education
Richards, Mark A.	Dean, Division of Physical Sciences, College of Letters and Science
Saxenian, AnnaLee	Dean, School of Information Management and Systems
Schell, Orville H.	Dean, Graduate School of Journalism
Sherwood, James E.	Dean, University Extension
Shortell, Stephen M.	Dean, School of Public Health
Smith, Michael R.	Assistant Chancellor, Legal Affairs

III. AUDIT METHODOLOGY

Following is a description of the principal procedures carried out in the performance of this audit:

For the Seven Vice Chancellors

- Interviewed key staff members using a tailored travel and entertainment questionnaire;
- Obtained a data extract of all travel and entertainment related reimbursements issued to each Vice Chancellor;
- Reviewed travel reimbursement voucher processing for compliance with Business & Finance Bulletin G-28, Policy and Regulations Governing Travel;
- Reviewed entertainment reimbursement voucher processing for compliance with Business & Finance Bulletin BUS-79, Expenditures for Entertainment, Business Meetings, and Other Occasions;
- Reviewed Faculty Club (Men's & Women's) payments for compliance with Business & Finance Bulletins BUS-79 and BUS-43, Material Management; and
- Reviewed travel and entertainment expenditures incurred on the Campus-issued credit cards for compliance with Business & Finance Bulletins G-28 and BUS-79 for any Vice Chancellors using these credit cards for payment.

For the Additional 28 SMG Members

- Identified who at the campus has the delegated authority to approve exceptional travel and entertainment transactions as well as how the delegated authority has been documented;
- Documented what, if any, guidance was provided to the individuals with exceptional travel and entertainment approval authority;
- Verified that no records exist that provide information on the number of exceptions requested, approved, or denied along with the reason for requesting the exception;
- Analyzed the Travel Questionnaire and the Entertainment Questionnaire sent to and returned by each SMG member;
- Identified the types of travel and entertainment expenditures that can be charged directly to the University without the need to reimburse the SMG member;
- Created standardized query reports for the SMG members' reimbursements related to travel and entertainment expenditures;
- Developed query criteria for entertainment expenditures paid to third party vendors where the SMG members served as host; and
- Selected a sample of travel and entertainment reimbursements for review of supporting documentation against University policy, noting any exceptional expenditure.

IV. AUDIT RESULTS

The results of the audit revealed that, for the most part, proper controls and procedures have been implemented to ensure compliance with relevant policies governing travel and entertainment. Our review of SMG travel and entertainment

found no additional forms of compensation. However, we found a few instances of noncompliance with policy and opportunities to strengthen controls in the areas of approval, documentation, and certification. Detailed observations and recommendations follow.

V. OBSERVATIONS AND RECOMMENDATIONS

A. Proper Level of Approval

In some cases¹, travel and entertainment reimbursement reports for SMG members lacked the proper level of approval. Travel and entertainment policy requires the approver must be either a supervisor or someone at a higher classification than the individual claiming the expenditure. We found instances where a subordinate or someone at the same classification as the SMG member claiming a reimbursement served as the approver.

We recommend that the Controller's Office:

- (1) identify the appropriate approver(s) for all expenditures reimbursed directly to or hosted by SMG members, particularly Vice Chancellors and Deans;
- (2) communicate the appropriate approval level to SMG members; and
- (3) ensure that travel and entertainment reimbursement reports are properly approved before processing them for payment.

Management Response

We concur with the recommendations and the Controller's Office will identify by position the appropriate approvers for all expenditures reimbursed directly to or hosted by all SMG members. This will be communicated directly to them as well as their administrative staff by August 30, 2006.

The Travel & Entertainment department staff will be advised of the appropriate approvers and will be instructed to audit carefully for proper approvals. This will be completed by August 30, 2006.

B. Adequate Documentation

In some cases, travel and entertainment incurred by the SMG members lacked documentation in the form of itemized receipts and written justification. Travel and entertainment policy requires a clear business nature/purpose², itemized receipts for certain expenditures (at least \$75)³, and written justification for

¹ Proper approval was missing in 34% of travel and 38% of entertainment vouchers reviewed as part of this audit.

² 28% of entertainment vouchers reviewed did not include a clear business purpose/nature.

³ 30% of entertainment vouchers reviewed did not include itemized receipts.

exceptional⁴ and miscellaneous items⁵. Some vouchers either did not include a business nature/purpose or involved the use of a very generic business nature/purpose that did not provide sufficient information for an independent third party to determine the propriety of the expenditures. Missing receipts consisted of hotel itemized statements and restaurant itemized receipts for entertainment meals. Written justification was often omitted in the case of exceptional travel or entertainment (upgrade to business/first class for overseas trips, additional charges for airline changes, per person limits exceeded, spouses in attendance) and whenever miscellaneous items were claimed as reimbursement (Internet fees, telephone calls).

We recommend that the Controller's Office:

- (1) remind SMG members to provide a clear business nature/purpose, itemized receipts for any expenditures of at least \$75 as well as those separately identified in the travel policy, and written justification for exceptional or miscellaneous items claimed for reimbursement; and
- (2) ensure that travel and entertainment reimbursement reports contain adequate documentation before processing them for payment.

Management Response

1. *We concur with the recommendation and the Controller's Office will remind SMG members and their administrative staff by August 30, 2006.*
2. *Since the implementation of the travel and entertainment reimbursement system that contains edits for maximum allowances, etc., procedures were implemented to conduct sample audits (25%) of reimbursements of ≤ \$500 and 100% audit of those over that amount. This change was made to redirect resources to focus on higher risk transactions and process low value reimbursement claims in a more expeditious manner. Given the amounts involved, dollar reimbursements of < \$500 were considered a low risk. Some of the examples cited for inadequate documentation fall into the sampling category. Ongoing policy training on travel and entertainment is scheduled to resume in August 2006. As an alternative to your proposal that our department must ensure that every travel & entertainment reimbursement report contains adequate documentation before processing them for payment we would propose to take the following action: emphasize the importance of documentation in the ongoing policy training sessions, issue periodic reminders to campus on this issue and review our sampling techniques with regard to departments with high error rates. This will occur by August 30, 2006.*

⁴ 60% of entertainment vouchers reviewed did not include written justification for exceptional entertainment.

⁵ Miscellaneous items refers to charges such as Internet access fees, telephone calls, copy services, etc., necessary in the course of travel. This information was not disaggregated by type of documentation in the case of travel vouchers.

C. Certification of Host

Entertainment vouchers are not always being certified by the SMG member who incurred the expenditures and served as host⁶. The majority of noncompliance instances involved the certification by a staff member within the unit who did not serve as the host of an event paid to a third party vendor, so that the SMG member could approve the vendor payment. Travel and entertainment policy prohibits individuals from approving their own expenditures or the expenditures of an individual to whom he or she reports either directly or indirectly.

We recommend that the Controller's Office remind SMG departments to identify the correct host for certification of entertainment vouchers to assist in the process of obtaining proper approval.

Management Response

We concur with the recommendation and the Controller's Office will remind SMG members and their administrative staff by August 30, 2006. In addition, this will be stressed in the ongoing entertainment policy training and periodic communications.

⁶ 21% of entertainment vouchers reviewed were not certified by the SMG member who incurred the expenditures and served as host.